

"(A) by using an interest rate of 6 percent. and
"(B) without compounding until January 1, 1996."

(b) ABUSIVE TRANSACTIONS.—Section 643(a) is amended
by inserting after paragraph (6) the following new paragraph:

"(7) ABUSIVE TRANSACTIONS.—The Secretary
shall prescribe
such regulations as may be necessary or
appropriate to carry
out the purposes of this part, including
regulations to prevent
avoidance of such purposes."

(c) TREATMENT OF LOANS FROM TRUSTS.—

(1) IN GENERAL.—Section 643 (relating to
definitions
applicable to subparts A, B, C, and D) is
amended by adding
at the end the following new subsection:

"(i) LOANS FROM FOREIGN TRUSTS.—For purposes
of subparts
B, C, and D—

"(1) GENERAL RULE.—Except as provided in
regulations.
if a foreign trust makes a loan of cash or
marketable securities
directly or indirectly to—

"(A) any grantor or beneficiary of such
trust who is
a United States person, or

"(B) any United States person not
described in
subparagraph (A) who is related to such
grantor or bene-
ficiary.

the amount of such loan shall be treated as a
distribution
by such trust to such grantor or beneficiary (as
the case may
be).

"(2) DEFINITIONS AND SPECIAL RULES.—For
purposes of this
subsection—

"(A) CASH.—The term 'cash' includes foreign
currencies
and cash equivalents.

"(B) RELATED PERSON.—

"(i) IN GENERAL.—A person is related to
another
person if the relationship between such
persons would
result in a disallowance of losses under
section 267
or 707(b). In applying section 267 for
purposes of the
preceding sentence, section 267(c)(4) shall
be applied
as if the family of an individual includes
the spouses
of the members of the family.

"(ii) ALLOCATION.—If any person described in para-
graph (1)(B) is related to more than one person, the
grantor or beneficiary to whom the treatment under
this subsection applies shall be determined under regu-
lations prescribed by the Secretary.

"(C) EXCLUSION OF TAX-EXEMPTS.—The term 'United

States person¹ does not include any entity exempt from tax under this chapter.

"(D) TRUST NOT TREATED AS SIMPLE TRUST.—Any trust which is treated under this subsection as making a distribution shall be treated as not described in section 65¹

"(3) SUBSEQUENT TRANSACTIONS REGARDING LOAN PRINCIPAL.—If any loan is taken into account under paragraph

(1), any subsequent transaction between the trust and the original borrower regarding the principal of the loan (by way of complete or partial repayment, satisfaction, cancellation, discharge, or otherwise) shall be disregarded for purposes of this title."¹